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SUBJECT: BUSINESS VIEWS OF POWER CRUNCH

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11. (U) Summary: South Africa's private sector is concerned about the country's electrical power deficit. While firms believe that the South African Government (SAG) has a plan to address the problem, many are hedging their bets by buying generators and economizing on power. Shortages are not yet a "top concern" of investors, but electricity price hikes are likely and could affect South Africa's competitiveness. End Summary.

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The View of Business  
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12. (SBU) Blackouts and uncertainties about electrical power supply are a serious problem in South Africa, according to Vic van Vuuren of Business Unity South Africa (BUSA), and Bill Lacey of the South African Chamber of Business (SACOB). The business reps recently spoke with Econoffs about the country's power deficit and its implications for business (Ref A).

13. (SBU) According to Van Vuuren, firms know that power will be in short supply for the medium-term future, and many are buying back up generators and taking measures to economize on electricity. However, the BUSA executive took heart from the fact that top levels of the SAG understand the gravity of the problem and are resolved to add generating capacity. Van Vuuren told us that the SAG has embarked on an urgent remedial program overseen by Deputy President Phumzile Mlambo-Ngucka, in close consultation with operating departments, parastatal giant Eskom (the power utility), and the business community. "A plan, the political will, and financing" are all in place to add generating capacity in coming years, he said. He was concerned, however, that haphazard coordination between national and local governments could delay implementation.

15. (SBU) Van Vuuren was also worried that Eskom's "reserve margin" of power would remain razor thin for several years until new capacity came on line. "If one plant malfunctions, we won't have back up. It would compromise the whole system. If someone drops a monkey wrench, we could be in trouble," he warned. His fear was echoed by SACOB's Lacey, who said that Eskom's reserve margin could fall to as low as 3.75 percent in 2008, in contrast to the globally accepted reserve margin of 15 percent. Lacey noted, however, that tapping Mozambican power imports could augment Eskom's reserve.

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The Impact on Investment  
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¶6. (SBU) Lacey told us that the retail, light industrial and small business sectors have been the hardest hit by power shortages, since they are least able to afford in-house generating capacity. Information and financial services have also been affected, he said.

¶7. (SBU) Van Vuuren stressed that power shortages are not yet a "top concern" of investors. Lacey agreed and argued that due to the temporary nature of the power deficit, few investments would be put off or cancelled permanently. Both business reps did predict, however, that electricity prices would increase by 15-30 percent over the next few years. This could affect South Africa's competitiveness, as cheap power has been a historical South African selling point.

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Comment  
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¶8. (SBU) Robust economic growth coupled with inadequate infrastructure investment and shortages of skilled labor have led to infrastructure bottlenecks and supply constraints throughout the South African economy, including the power sector. The SAG has a \$60 billion capital expansion plan to alleviate these infrastructure bottlenecks over the next five years. In the meantime, the lights will go out from time to time.

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